Metropolitan robustly capitalised despite economic turmoil

Diversified financial services group Metropolitan released its financial results for the year ended 31 December 2009 earlier today (Wednesday 10 March). The group's healthy capital position and increase in dividend were key features due largely to good capital management practices.

"We are particularly pleased with our success in monitoring and managing our equity market exposure, given the roller-coaster ride that was 2009," says Wilhelm van Zyl, group chief executive. "Dynamic asset allocation and capital protection strategies such as hedging, together with other de-risking activities, enabled us not only to maintain adequate levels of capital but also to strengthen our balance sheet in the face of unprecedented equity market volatility."

With its statutory capital adequacy requirement (CAR) covered 3.7 times (2008: 3.1 times) at group level and 2.8 times (2008: 2.0 times) at life company level, Metropolitan ended 2009 in an even healthier capital position than it began the year, a reassuring achievement in the light of the market turbulence experienced throughout the year.

Metropolitan also uses its own internal capital model to determine the appropriate level of capital that it should hold, known as its economic or long-term capital requirement. This amount remained virtually unchanged during the year despite ongoing refinements to ensure that all its underlying risks had been taken into account and properly addressed.

An impressive return of 12% on embedded value is further evidence of how well Metropolitan weathered the volatile economic environment.

The group's embedded value grew to R12 billion or 1 811 cents per share (2008: R11.3 billion or 1 709 cents per share) despite the fact that Metropolitan paid out 95 cents per share in dividends during 2009. Embedded value comprises a life assurer's net asset value plus the value of its in-force book of business and is widely regarded as an appropriate base for measuring the current value of such a business.

On the back of strong investment performance, the group's return on its net worth surged to R846 million (2008: -R281 million) while positive investment variances contributed R442 million (2008: -R982 million).

Metropolitan declared a final dividend of 60 cents per share, 9% higher than the year-end declaration in 2008. "Our prudent approach to capital management plus the fact that we are generating strong cash returns is continuing to pay dividends, literally and figuratively speaking," is how Van Zyl puts it.

The group's strategic empowerment partnership with Kagiso Trust Investments (KTI) was refinanced by a consortium of banks for another three years from October 2009, testimony to how successful the partnership has been, and continues to be. At an estimated 20%

after the refinancing, the group's direct black ownership percentage remains amongst the highest in the financial services sector and well above legislated requirements.

In its most recent review of Metropolitan (December 2009), Fitch Ratings maintained the group's ratings at AA- (zaf) (national insurer financial strength) and A+ (zaf) (national long-term), a reflection of the group's capital soundness as well as its business position and prospects.

"A great deal of uncertainty remains as to the direction in which markets will move next, with many of the determining factors in the hands of foreign and local policymakers," says Van Zyl. "Solvency II has been on international radar screens for quite some time and in South Africa the Financial Services Board is following the lead with its solvency assessment and management (SAM) project, in which we are actively involved. "Consequently 2010 will be another year of focus on capital management, with the optimum allocation and utilisation of capital to add value for stakeholders remaining a top priority for us."

Other key features of the results

- At 141 cents per share diluted core headline earnings for the year held up well in a tough environment, decreasing only 7% over 2008 (151 cents).
- However, operating profit across all the businesses in the group was negatively affected by the recessionary economic conditions.
- Earnings and headline earnings per share, at 188 cents and 197 cents respectively, were boosted by mark-to-market gains and recorded significant increases compared to the losses of (27 cents) and (20 cents) respectively disclosed in the previous year.
- Despite severe pressure on cash flows from clients as a result of the recession, net inflows of R1.5 billion were recorded by the group.
- Total new recurring premium business to the value of R1 159 million was written in 2009 while single premium business amounted to R3 422 million.
- The value of the group's new insurance business for the year was R119 million.

Please refer to Metropolitan's statutory announcement for further details of the results or turn over for a summary

Summary of Metropolitan's results to December 2009

	December 2008	**December 2009**
Earnings	(R319m)	R1 129m
Diluted earnings per share	(27c)	188c
Diluted core headline earnings	R1 011m	R934m
Diluted core headline earnings per share	151c	141c
Embedded value per share	1 709c	1 811c
Return on embedded value	(2.1%)	11.9%
Embedded value per share	1 709c	1 811c
Total dividend per ordinary share	95.00c	100.00c
Total premiums received	R11.9bn	R11.2bn
Total assets under management	R98bn	R103bn

Notes

- Core headline earnings are a particularly appropriate measure of the performance of financial services groups such as Metropolitan in that they eliminate items of both a once-off and an inherently volatile nature, such as changes to the valuation basis, investment variances and capital appreciation/depreciation.
- Diluted core headline earnings have been adjusted for the convertible redeemable preference shares, the staff share scheme shares and the treasury shares in issue – all dilutory in nature. The preference shares were issued to Metropolitan's strategic empowerment partner, Kagiso Trust Investments (KTI).

end

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